

Summary

The Dominican market for automotive spare parts suffered a significant reduction over the last two years, but is showing signs of recuperation. The demand for automotive spare parts is linked to the aging car population, the growth in total vehicle population, and the deterioration of Dominican streets and roads. There are no restrictions for importation of these products into the Dominican Republic, the market is largely supplied by imports and it is dominated by Asian products. U.S. exports of automotive spare parts are expected to increase as a consequence of the elimination of import duties as a result of the Central American Free Trade Agreement-Dominican Republic (CAFTA-DR)



Market Overview

The market for automotive spare parts in the Dominican Republic started to decline in 2003 as a result of an economic crisis, which the country experienced due to a banking crisis and a one hundred percent depreciation of the local currency. In 2004, the market for automotive spare parts contracted by 25 percent, however industry experts are confident that the market will recuperate in 2005 and that the market will increase by 15 percent per year over the next three years as a result of the Central American Free Trade Agreement-Dominican Republic (CAFTA-DR).

In 2005, the total market for Automotive Spare Parts in the Dominican Republic is expected to reach US\$61.9 million, an 8 percent increase from US\$57.1 million in 2004.

MARKET OF AUTOMOTIVE SPARE PARTS (U.S. million dollars)

Year	2002	2003	2004	2005 (e)	2006 (e)
Total Market	79.6	77.3	57.1	61.9	65.4
Local Production	0.5	0.3	0.2	0.3	0.4
Exports	0	0	0	0	0
Total imports	79.1	77.0	56.9	61.6	65.0
Imports from the U.S.	54.7	53.1	39.3	43.5	50.0

Statistical information was estimated based on interviews with industry representatives, statistical data retrieved from the National Trade Data Bank (NTDB) and the General Directorate of Customs of the Dominican Republic.

Factors that influence demand for automotive spare parts are:

1. The continued growth of the number of vehicles circulating in the country; according to the Motor Vehicle Department of the Internal Revenue Directorate, there are 1.98 million vehicles currently in operation in the Dominican Republic.



During 2003 and 2004, the importation of vehicles declined, but, as soon as the economy improved and the dollar exchange market was stabilized, imports of vehicles have showed a remarkable 120 percent increase during 2005. During the period January - June 2005, an additional 66,952 vehicles were introduced to Dominican roads. There is also a tendency to overextend the useful life of the vehicles; thereby creating a constant need for repairs and preventive maintenance. It is estimated that 25 percent of the total amount of vehicles in the Dominican Republic have been in use for more than ten years. Another important factor that

increases the number of old vehicles circulating in the country is the increase in the annual importation of used vehicles. These vehicles typically require major repairs within a few years after their introduction to the Dominican Republic and create a demand for spare parts.

2. Increased breakdown of vehicles due to the poor condition of the streets and roads in the Dominican Republic. This is of significance especially for buses and trucks used in the inter-urban transportation of goods and persons.

3. There is also a significant undersupply of mass transportation means, causing the existing capacity to be overused, thus resulting in frequent breakdowns.

Competition

The market of automotive spare parts is largely supplied by imports, and there is only a limited local production of batteries and radiators. In 2005 the total import market for Automotive Spare Parts in the Dominican Republic is expected to be US\$61.6 million, an 8 percent increase from US\$ 56.9 million in 2004.

The Dominican market for Automotive Spare Parts is largely dominated by Asian products (Japan: 40%, Taiwan: 15%, China: 10%), followed by the U.S. (30%.) and European products (5%). In 2005 the D.R. is expected to import US\$43.5 million of these products from the U.S., representing a 10 percent increase from the US\$39.3 million imported in 2004.

Japanese and other Asian automotive brands account for 70 percent of the vehicles in the country; the remaining 35 percent is shared between American (20 percent) and European (10 percent) makes. The reason for this significant presence of Asian vehicles is that until 1994 Dominican Customs used to impose a selective consumption tax on automobile imports based on engine size. The rationale behind this practice was that vehicles with small engines consume much less gas than vehicles with large engines. Although the law has changed, the public perception has not, and Dominicans still perceive that American vehicles are big consumers of gas.

Nevertheless, automotive spare parts of Asian brands often come from the U.S. (60%). The reason for this situation is the proximity to the U.S. that permits rapid delivery time and the provision of credit facilities (60-90 days) from U.S. automotive spare parts dealers/exporters.

Another factor that maintains and supports U.S. exports of automotive spare parts to the Dominican Republic is the quality of American products. Japan's dominance is only a reflection of its dominance in the car market. Import strengths for the U.S. are, in order of importance: batteries, tires, engines and engine parts, electrical motor parts (mainly fuses), and shock absorbers. Likewise, there continues to be an increase in demand for parts for Japanese made cars that are manufactured for the U.S. market, and for Japanese brands manufactured in the United States.





Market Trends

The United States and Dominican Congresses recently approved the Central American Free Trade Agreement-Dominican Republic (CAFTA-DR). The agreement will greatly expand the bilateral trade between the participating countries; it will also allow for greater access for U.S. exports into the region. CAFTA-DR is expected to be implemented on January 1, 2006. However, the CAFTA-DR partners that have ratified or approved the agreement must formally agree on an implementation date.

Under the CAFTA-DR, US imports into the Dominican Republic have been classified by categories. Each category provides for the elimination of customs duties in different stages. Some products will enter the Dominican Republic duty-free on the date the agreement enters into force, while others will receive gradual reductions on the customs duties. Most of the automotive spare parts have been categorized within the groups A, B, C, and M. An explanation of these categories and a list of products under each category follow:

Category A:

Duties on goods under this category will be eliminated entirely on the date the agreement enters into force.

HS Code	Product description	Current Duty
401140	New tires for motorcycles	14
401161	New tires for industrial, agricultural and construction equipment	3
401211	Retreated tires for cars	20
401212	Retreated tires for buses and trucks	20
401310	Inner tubes for tires for cars	14
840731-3	Spark ignition reciprocating engine under 1,000 cc	3
840991	Parts for engines	3
842123	Oil or fuel filters for internal combustion engines	3
842131	Intake air filters for internal combustion engines	3
848210	Ball bearings	3
848310	Transmission shafts and cranks	3
848320	Housed bearings	3
848330	Bearing housing; plain shaft bearings	3
851110	Internal combustion engine spark plugs	3
851120	Internal combustion engine magnetos	3
851130	Distributors, ignition coils	3
851140	Internal combustion engine starter motor	3
853610	Fuses	3
853650	Motor starter	3
870600	Chassis fitted with engines	8



Category B:

Duties on goods in this category will be removed in five equal annual stages beginning on the date the agreement enters into force and will be duty-free effective January 1 of year five.

HS Code	Product description	Current Duty
401220	Used tires	20
401320	Inner tubes for tires for bicycles	14
840734	Spark ignition reciprocating engine over 1,000 cc	3
840820	Compression ignition internal combustion piston engine	3
850710	Batteries, lead acid, piston engine	14
870790	Bodies for tractors, buses, and trucks	14
870810	Bumpers and parts	14
870821	Safety seat belts	8
870829	Parts and accessories of bodies	8
870831	Mounted brake linings	8
870839	Brakes and parts	8
870840	Gear boxes	8
870850	Drive axles with differentials	8
870860	Non-driving axles and parts	8
870880	Suspension shock absorbers	8
870892	Mufflers and exhaust pipes	8
870893	Clutches and parts	8
870894	Steering wheels columns and boxes	8
870899	The other parts and accessories	8

Category C:

The duties on the products under this category will be removed in ten equal annual stages beginning on the date the agreement enters into force, and will be duty-free, effective January 1 of year ten.

HS Code	Product description	Current Duty
401110	New tires for cars	20
401120	New tires for buses and trucks	14
870710	Bodies for cars	20

Category M:

Duties of goods in category M will be removed in ten stages. On the date the agreement enters into force, duties will be reduced by two percent of the base rate, and by an additional two percent of the base rate on January 1 of year two. On January 1 of year three, duties will be reduced by an additional eight percent of the base rate, and by an additional eight percent of the base rate each year thereafter through year six. On January 1 of year seven, duties will be reduced by an additional 16 percent of the base rate, and by an additional 16 percent of the base rate each year thereafter through year nine, and these products will receive a full duty-free treatment effective January 1 of year ten.

HS Code	Product description	Current Duty
870891	Radiators	14

It should be noted that the benefits of CAFTA-DR are for those products that comply with the “Rules of Origin” established in Chapter Four of the agreement. Under these rules, a product that is manufactured in another country, for example Japan or China, will not receive duty-free treatment even if it is imported from the United States.

Another important benefit of the CAFTA-DR is that several other taxes and fees levied on U.S. products exported to the Dominican Republic will be eliminated. These are the Consular Invoice (current value varies), and the Exchange Surcharge (currently 13%). However, a 16% ITBIS tax (value added tax on industrialized goods and services) is required to be applied to most products sold in the Dominican Republic. As a result of the elimination of these taxes, the prices of automotive spare parts are expected to decline, while imports from the United States are expected to increase.

Market Entry

The principal selling factors in the Dominican Republic are price and quality. The importance of these factors varies: when purchasing expensive spare parts such as motor engines and transmissions, price is the primary factor, but for original parts, "universal" parts, and for safety-related products such as tires, quality is considered very important. This is where high quality American products have an advantage.

Local importers, distributors/wholesales and retailers are the main channel for marketing automotive spare parts in the Dominican Republic. They usually have sales agents who distribute the products to small retailers throughout the country.

There are several local firms that specialize in parts that are hard to find in the local market but can be easily procured from the U.S. Also, as mentioned before, it is common for importers supplying the aftermarket to source Japanese and European parts from the U.S. Some Dominican firms prefer to purchase spare parts for luxury cars (Mercedes Benz, Jaguar, Porsche, BMW) from the United States. The reason for this is the proximity to the U.S. that allows for short delivery time.

Within the private sector, almost all imports are made by orders placed through local sales importer/distributor agents or foreign manufacturer concessionaires. In some cases, for example large passenger transportation fleets and government agencies, imports are purchased directly.

Before appointing an agent or a distributor in the Dominican market, U.S. exporters should become familiar with Dominican Law 173, which regulates the relationship between foreign and local companies.





This law is designed to protect Dominican citizens who work as agents or distributors for foreign companies. Law 173 establishes and provides substantial penalties for foreign firms who unilaterally terminate contracts with local distributors or agents without "just cause". Interested companies may request a copy of the Law 173 from the U.S. Commercial Service at the U.S. Embassy in Santo Domingo.

Note: American suppliers must stay in close contact with their agent/distributors, be flexible on order size (many orders will be small) and credit terms (after having a satisfactory payment history), and visit the local agent/distributor on a regular basis.

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